



# LETTER OF TRANSMITTAL

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May 5<sup>th</sup>, 2014

Honorable Board of Supervisors  
and the People of Yuma County

Yuma County has the great fortune of having abundant natural resources and an environment conducive to supporting a truly unique economic base. While uncertainty about future sustainability continues to plague many communities throughout our country, ours remains stable. Growth may be limited, but all indications are that Yuma County is still an area with a bright future.

Providing high quality services to the residents of Yuma County in the most cost-effective manner continues to be the cornerstone of the County's annual budget preparation process. Yuma County residents have benefitted greatly from the conservative planning and spending practices that have provided fiscal stability that has been more than unique during this long and deliberate economic recovery. In spite of those efforts, circumstances beyond the control of County officials always poses a risk that revenues may be less and expenditures for certain obligations may be greater than projected. Ultimately, our charge is to present the most fiscally responsible Recommended Budget possible with due consideration given to all relevant variables.

Not in recent memory has federal spending on programs in which Yuma County participates been as much of a concern as it is today. From justice programs to the Payment in Lieu of Taxes program, County revenues are in serious jeopardy. To what extent any affected county can absorb and adjust to marked reductions in program revenues depends on their fiscal stability and the accuracy of projections for the future.

Revenue projections always involve an element of guesswork. Few could have predicted, however, that with growth occurring in seemingly every county throughout Arizona that Yuma County would experience a decline in local revenues. This is precisely the dilemma we are faced with as we work toward the latter part of the fiscal year. Trends have shown some improvement, but it is readily apparent that Yuma County will fall well short of our targeted revenue projections for the current year. Of course, this impacts our ability to predict growth in the next fiscal year.

The decisions made by State lawmakers often have significant impacts to local government entities. Actions taken at the State level to divert County funds for other State program uses continues to present a significant challenge to counties, cities and towns in Arizona. Yuma County is not immune from the impact of such actions. Rather, due to a lack of control over the decisions made that have a negative impact on our County budget, we are continually put in a position of having to make internal adjustments to offset them. Redirection of critical funds for local program support, many of which funds are generated locally and withheld by the State, puts the County in a position of having to provide alternate funding in order to meet expected service levels.

The approach for the upcoming fiscal year will be markedly different from past years insofar as the Recommended Budget includes a significant use of the County's cash reserves. Generally Accepted Accounting Principles for governmental entities recommend that a fund balance reserve be maintained at no less than five percent (5%) to fifteen percent (15%). Yuma County's informal policy in recent years has been to maintain its fund balance reserve at between seventeen percent (17%) to twenty-five percent (25%). A particular challenge in this recovering economy lies in determining when it may be appropriate to utilize a portion of a better than acceptable reserve to meet specific needs in the community? This is a risk that is within our control. How much of that risk should be assumed is a subjective determination based on needs.



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Evaluating what critical needs must be met each year with respect to the impact additional resource allocation will have on cash reserves is a necessary component of the budget process. In years past, Yuma County has responsibly balanced those two (2) competing demands with relative success. It seems more likely than not that this past fiscal year will result in a fairly significant use of Yuma County's cash reserve due to higher than trend expenditures and lower than trend revenues. In spite of this likelihood, this Recommended Budget contains limited additions that would have the effect of further reducing cash reserves. Ultimately, the Board of Supervisors will decide what level of reserve is appropriate and fiscally responsible.

Yuma County's elected officials and staff take great pride in our ability to work cooperatively and always with the best interest of our residents in mind. This Recommended Budget has been prepared in that same spirit. Not every need can be met and not every request can be granted. Our organizational strength lies in the collective understanding that responsible decisions are made for the benefit of our community.

## Preliminary Goals

Slower than expected growth has caused a shift in priorities from program enhancements and improvements to ongoing maintenance needs. From funding shortfalls in existing special revenue positions to recurring user license and maintenance fees to aging equipment, priority had to be given to expenditures that allow for status quo to be achieved while at the same time giving due consideration to requests for new personnel. Last year's compensation adjustment for employees, though appropriate and necessary, may not be possible again for some time into the future. Continuing to move forward with a minimally invasive use of our fund balance has proven to be this year's main goal and objective.

Improvements to Yuma County's Recommended Budget presentation was another priority for this fiscal year. A new look and condensed budget book is being presented. Regardless of its look and utility, Yuma County's annual budget functions as a guide for County officials and their appointed staff on how appropriated resources are used for the benefit of the community. The following new obligations have been incorporated for Fiscal Year 2014/2015:

1. Inflationary increases in the four (4) participating employee pension programs;
2. Premium rate increases to Yuma County's Employee Benefit Trust due to rising plan costs from an abnormally high number of large claims and ongoing prescription medication cost increases;
3. Absorbing funding shortfalls for critical special revenue positions;
4. Increased user license fees and maintenance agreement costs for existing programs;
5. Ongoing costs resulting from State legislative action reducing program funding or shifting program cost responsibility to Yuma County.

In order to meet these new liabilities, Yuma County will have to utilize a portion of its cash reserves, unless the decision is made to take advantage of the capacity that exists in the primary property tax limit. Although counties have the annual capacity to increase property tax revenues (levy) by up to two percent (2%) of the previous year's levy, plus the value of any new construction occurring during the previous fiscal year, Yuma County has chosen not to levy primary property taxes in excess of the prior year's levy. In fact, for Fiscal Year 2012/2013 Yuma County took a very dramatic approach which resulted in the reduction of approximately \$1 million in levied property taxes. That action, while appropriate under the circumstances that existed at that time, always presented the likelihood of the need for a corollary action to increase the primary property tax levy in subsequent years. Failure to do so would have the effect of compounding the loss of primary property tax revenue annually by a like



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amount. For example, in the second year of the \$1 million reduction the County's ending fund balance would be impacted by \$2 million; \$3 million in the third year and so on.

Continuing to maintain the fund balance at an appropriate level is an ongoing priority. Generally accepted accounting principles dictate that a public entity's fund balance should be not less than 5% - 15%. Yuma County has consistently maintained a fund balance at between 17% - 25%, in spite of a recurring programmed use of several millions of dollars from that fund balance to bridge existing structural gaps in the budget. Each year, those programmed funds are offset by the maintenance of vacant positions and spending controls (reversionary revenues). The budgeted year end fund balance for Fiscal Year 2013/2014 is slightly above fifteen percent (15%). This marks the lowest year end fund balance for the County's General Fund in well over a decade. This Recommended Budget, if adopted, will result in a year end fund balance for Fiscal Year 2014/2015 of approximately twelve percent (12%). A concerning trend appears to be developing whereby the fund balance is in decline. Great care will have to be taken over the course of the fiscal year to monitor expenditures so that an acceptable reversion of funds not spent is realized in order to offset the structural imbalance that exists.

In all, this Recommended Budget reflects an increase in General Fund revenues of approximately \$1.9 million and an increase in projected General Fund expenditures of approximately \$295,166. On its face, this correlation has the appearance of strengthening the County's fiscal position and reducing the structural imbalance that has existed for several years. However, these revenue and expenditure numbers do not consider the year-over-year reduction in fund balance. The budgeted year end fund balance for Fiscal Year 2012/2013 was approximately \$16.5 million. The projected year end fund balance for Fiscal Year 2013/2014 is \$13.7 million, a difference of just under \$3 million (this number is somewhat skewed by the expenditure of just under \$1 million in Fiscal Year 2013/2014 for payment of a contractual settlement that had been in litigation). Assuming full utilization of budgeted appropriations for Fiscal Year 2014/2015, the year end fund balance will be approximately \$8.7 million, or twelve percent (12%) of the total General Fund budget.

The Board of Supervisors authorized an adjustment on the collection of sales tax supporting the Public Health Services District (Health District) to its maximum allowable amount for Fiscal Year 2013/2014. As a result, the projected year end fund balance for the Health District will exceed twenty three percent (23%). Through effective management of programs and personnel, the Health District is now fiscally stable.

The Jail District, however, has fallen victim to the dramatic loss of the local sales tax revenue that supports well over fifty percent (50%) of its operation. As a result, the projected year end fund balance for the Jail District is slightly above \$300,000, or one and eight-tenths percent (1.8%) of its total operating budget. Action will be taken operationally within the Jail District to ensure that budgeted positions remain vacant during the course of the fiscal year, the effect of which will be to provide as much support in the form of a reversion to the fund balance as is possible while still providing an appropriate environment for housing detained prisoners.

The future financial stability of Yuma County remains the ultimate goal in the preparation of any recommended budget. County staff adjusted to a significant reduction in revenues and a compounded loss of property tax revenue this past fiscal year. Although our foundation is not as solid as had been hoped at the start of this fiscal year, we continue to take pride in our ability to adapt to frequent changes in our fiscal circumstances. We continue to take our obligation of presenting a balanced budget to the residents of Yuma County very seriously with the best interest of our community in mind.



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## The Economy and Local Revenue

One of the significant challenges facing Yuma County in regard to its economy is the idea of diversification. Our long-standing base related to the agriculture industry and a strong military presence appears to be relatively secure. However, population growth in the area will likely be stagnant until such time as our emerging manufacturing base is expanded. There is little demand placed on the housing market, and its corresponding construction industry, without some increase in population. How to diversify and what County resources to invest in the process continue to be subjects of discussion.

Yuma County's budget staff continues to analyze economic activity on a global level to more fully understand overall stability in the universal marketplace. Worldwide gross domestic product, especially in the Eurozone, is rebounding at modest levels. Indications are that moderate growth will continue in emerging markets.

As the stock market continues to reach historical highs, economists are speculating as to when, or if, some kind of debilitating sell-off is imminent? With the vast majority of Yuma County's investments in mortgage backed securities and government bonds, we enjoy limited risk but very little in the way of returns.

As has been previously stated, transaction privilege taxes in the current fiscal year proved to be somewhat of a mystery. Virtually every economic indicator of consequence has been positive. The housing market is slowly recovering, personal bankruptcies and foreclosures are in decline, local gross domestic product increased this past calendar year, consumer prices and confidence have been trending upward and unemployment, though high, has remained static over the course of the last twelve (12) months. So, when County staff projected a modest two and one-half percent (2.5%) growth in local transaction privilege taxes it seemed more than reasonable. No one could have predicted that we would actually experience the decline that we have experienced for most of the fiscal year. Conversely, the State Shared Transaction Privilege Tax has been better than projected and has helped to offset the local losses.

The State Legislature has adopted a budget, which was signed by the Governor, based on revenue projections of five percent (5%) growth in retail sales taxes. Yuma County will continue to project and budget based on an expected two percent (2%) growth factor, which will result in a nearly three percent (3%) decline in the Fiscal Year 2013/2014 budget for local transaction privilege tax due to the lower base established by that fiscal year.

In the last year of her final term in office, the Governor of Arizona proposed an economic incentive for manufacturers that effectively granted an exemption for the sales tax paid on the purchase of electricity. The concept, which developed into SB 1413, was passed through the Legislature with an offset in the appropriations bills that held counties harmless. Unfortunately, the Governor exercised her line item veto authority to eliminate the budgeted offset for counties, which will result in a potential loss of nearly \$140,000 in combined state and local transaction privilege tax dollars. So, at a time when we are most vulnerable in both our revenue projections and fund balance, Yuma County is placed in a position of having to incentivize businesses for which we have no identified risk of displacement.

In spite of a mild winter conducive to a bountiful growing season, an unseasonably cold winter in the eastern United States has had a negative impact on the ability of Yuma County's growers to deliver their produce to traditional markets. This resulted in a higher than average waste of product and a corresponding loss of revenues associated therewith.



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The F-35 Joint Strike Fighter aircraft at Marine Corps Air Station Yuma have now reached their first full squadron of sixteen (16) aircraft. As the rotation continues for the replacement of the AV-8B Harrier aircraft, it is expected that two (2) aircraft will arrive on a monthly basis until all designated squadrons are complete. Construction to house support systems for the F-35 is now in its third and final stage. Construction and expansion of renewable energy projects throughout Yuma County continues to provide opportunities for the local construction industry. Residential construction permitting activity has been sporadic with increases in some months but not in others. The liquidation of existing inventory of residential properties remains at slightly more than 50 percent (50%), which represents a nominal increase from last year's numbers.

It was hoped that property values had reached a low point in the compression cycle and would increase, or at least remain flat, for the next tax year. Unfortunately, values continue to decline and a compression of approximately four percent (4%) was experienced this tax year. For the coming year, property tax rates will have to be adjusted upward in order to collect the same amount of revenue during the next fiscal year.

The overall outlook for Yuma County's economy remains positive, but guarded. There is little doubt that our community remains poised for growth in new industries; however, the timing and rate of that growth is dependent on variables largely beyond our control in county government. In Fiscal Year 2014/2015, we will continue to support economic development activities and work with business leaders to attract prospective employers to Yuma County.

## Compensation and Benefits

Although it was both necessary and feasible to provide an organizational compensation adjustment for employees in the current fiscal year, our current circumstances have eliminated any similar adjustment from occurring during the next fiscal year.

The impacts from the Patient Protection and Affordable Care Act (ACA), increases in the number of large claims within our program and a continuing rise in the cost of specialty medications are causing the cost of the Yuma County Employee Benefits Trust to increase again in Fiscal Year 2014/2015. As a result, premium rate increases will again need to be included in this Recommended Budget to maintain an adequate reserve funding level in the Trust. Yuma County's established practice for identifying the necessary reserves is an amount equal to six (6) months of claims activity along with the incurred but not reported claims. Additionally, there is a recommendation this year to shift a higher portion of the premium rate increase for dependent coverage to the employees who have dependents on the plan.

The reclassification of employees who have been asked to perform duties exceeding those called for in their existing job descriptions will be recommended. There were twelve (12) County requests submitted and reviewed by Human Resources Department. Of those, all twelve (12) were recommended to, and approved by, the County Administrator. Two (2) requests covered by the Judicial Merit System for classification or title changes were submitted and approved.

Yuma County will continue to build on the success of our Loan Repayment Assistance Program to recruit and retain qualified attorneys. The Tuition Assistance program continues to develop a more well educated and qualified workforce in County government. The On-Call Duty Pay program for those employees who are required to be available on traditional non-working hours has been a welcomed benefit to those employees providing on-demand services.



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## Personnel

Each year, departments submit requests for increases, or in certain cases decreases, in personnel. The requests for an increase in personnel are typically due to the need to provide additional support for existing programs or to establish new programs. Requests for a decrease in personnel involve either a loss of special revenue funding or the merging of funding from one position into another position or positions. The preferred ratio would result in a net zero impact on the existing full time employee count, especially for the General Fund employees.

This year, the most significant request in regard to personnel is for the General Fund to continue its ongoing support for shortfalls in grant funded positions related to the County's public safety function. The State Legislature has established a pattern of redirecting funds from the State Aid to Indigent Defense (Fill the Gap) program in recent years. The trend has become more invasive for the next fiscal year. In particular, several positions in the County Attorney's Office, both prosecutors and victim advocate staff, and the Public Defender's Office are experiencing a steady decline in program funding. In order to continue providing these critical services to the community, it is recommended that these shortfalls be funded. Additionally, shortfalls in the Superior Court budget are similarly felt due to the Fill the Gap funding raid. Because of the interrelationship between those offices and their functions, all of the shortfall funding is being recommended to the detriment of the County's General Fund reserve.

Certain areas within County government remain understaffed in relation to preferred standards. Particularly, the resident to Deputy ratio for the Yuma County Sheriff's Office and the Detention Officer to detainee ratio in the Juvenile Detention Center remain well below what is generally acceptable in those environments. As a result, those entities are encouraged to continue identifying and requesting the personnel necessary to meet the needs of the community. The Yuma County Sheriff has proposed a modest increase (2 FTE positions) in staffing for Fiscal Year 2014/2015. Rather than submitting a request for a number of positions that cannot be funded, it was agreed between the Sheriff and the Budget Review Team that an effort would be made to provide a limited number of positions, resources permitting, on an annual basis until such time as the desired ratio is achieved. This Recommended Budget does include a recommendation for the addition of two (2) Deputies.

Justice Court Precinct Two continues to manage through the operational safeguards recommended by the Administrative Office of the Arizona Supreme Court in Fiscal Year 2012/2013. In order to maintain staffing at its current level, a request was made to absorb costs for a Clerk I position that has been funded through the Justice Court Enhancement Fee fund which can no longer support it. To maintain the continuity of operations within the Justice Court, the shortfall for the Clerk I position is being recommended.

Investment in maintenance of the County's physical resources is becoming more of a concern as funds become scarcer to replace aging equipment. This becomes all the more difficult in consideration of the new facilities (South County and East County) that have opened without staffing to maintain them. In an effort to preserve the quality and functionality of the equipment we rely on to keep our facilities running and enable the provision of services to the community, funding is being recommended for a Facilities Maintenance Worker in General Services.

In the General Fund, a total of 28.115 new positions were requested for Fiscal Year 2014/2015. A net increase of 0.620 full time employee positions is being recommended.

For special revenue funds, which includes all special taxing districts, grant and fee funded programs, a





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net decrease of 8.190 positions was cumulatively requested by those departments and offices. The majority of requests for a decrease in positions is attributable to a corresponding request for General Fund support of those positions. A net decrease of 1.620 full time positions is being recommended.

In all, a net total of 19.925 positions were requested by all departments and offices combined. A net decrease of 1.00 position is being recommended.

We will continue in Fiscal Year 2014/2015 with the process of reviewing all positions that become vacant throughout the year for the necessity of maintaining them. This vacancy review process has proven to be very effective in monitoring the operational necessity of all positions.

## Capital Improvements

Capital improvements continue to be a problematic item in this Recommended Budget. While improving existing structures and equipment requires an allocation of resources that is beyond our existing parameters, failure to properly invest in our critical systems and facilities will likely result in much more costly repair and replacement at a later date. Therefore, due consideration must be given to appropriating sufficient funds with which to avoid unnecessary future costs. Additionally, projects that have been initiated in past years need to be brought to completion. With those factors in mind, only the most essential projects are recommended for funding in Fiscal Year 2014/2015.

The audio/visual system in the Yuma County Justice Center was implemented with the construction of the new facility which opened in 2005. The system is used to create recordings of court proceedings where an official record is required but a court reporter is not available. For the past two (2) years, we have been presented with compelling evidence of the need to upgrade the system to include the replacement of hardware that will no longer be supported by the vendor. Other components are either at or beyond their recommended life expectancy. In order to preserve the County's commitment to providing the highest quality equipment and technology available to support its Superior Court functions, this project was established early on as the top priority over any other capital improvement project in this Recommended Budget.

In Fiscal Year 2013/2014, Yuma County acquired a 50,000 square foot building on Yuma's Main Street, directly across from the current Administration Building. This acquisition, which will become known as the Administration Annex, will service several County offices and will ultimately be the home of a new Board of Supervisors Auditorium. Financing for the property acquisition and building renovation project was combined with the original financing for the East County Facility in Wellton. Hence, the debt service for the two (2) projects will be combined into one (1) annual payment until the debt is retired. The renovation of the Administration Annex will begin in Fiscal Year 2014/2015 and is scheduled for completion early in the subsequent fiscal year. A General Services revolving construction fund has been recommended for the past several years to provide the ability to manage routine repairs and modifications in County Facilities. Typically, a portion of the Capital Improvement Project fund contingency provides the resource for this item. However, due to a depletion of any such contingency for Fiscal Year 2014/2015, a portion of the County's projected year end fund balance needs to be programmed into this item in order to have some security in place.



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In all, five (5) existing or new General Fund projects will be recommended for funding in Fiscal Year 2014/2015, as follows:

1. Administration Annex
2. Justice Center/Historic Courthouse E-Courtroom Equipment Replacement (JAVS)
3. Misc. General Services Construction (revolving)
4. County Cemetery
5. Orthogonal and Oblique Imagery for GIS

As previously noted, the historical contingency funds provided for in the Capital Improvement Project fund account have been depleted through use on prior projects. Accordingly, this Recommended Budget reflects no available contingency because all available funding was allocated to the limited number of projects recommended.

## Closing

Fiscal Year 2013/2014 was an enigmatic one in the sense that the local economy has the appearance of being in recovery yet the resources available to provide services to our community are not growing at a commensurate pace. Yuma County's conservative planning and resilient nature will be relied upon like never before in the coming fiscal year. Uncertainty about the viability of programs outside the control of local officials, but that have a significant impact on local resources, will loom large and will be monitored closely. Yuma County officials will likely have to mobilize at the federal level like never before.

Yuma County's management team will once again be called upon to practice conservative spending habits and to consider the impact on the entire organization in their decision making. Managers have been given notice of certain administrative actions likely to be reactivated this next year to ensure stability.

As our community circumstances change, Yuma County government listens to the needs of our residents and we make adjustments that will allow us to continue providing high quality services in the most efficient manner available.

Staffing in Yuma County government departments and agencies is stronger than it has ever been. The commitment showed by our County leaders through their dedication to our residents is truly inspiring. I strive to share in the example that our Yuma County employees set for our community. Each year, each challenge makes us stronger, better and more effective public servants.

Respectfully,

Robert L. Pickels, Jr.  
County Administrator